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Written Testimony for the Record

Hearing on

“The Impact of Rising Gas Prices on America’s Small Businesses.”

Small Business Committee, Subcommittee on Investigations and Oversight,

U.S. House of Representatives

April 9, 2008

On behalf of Chesapeake Rehab Equipment and the National Coalition of Assistive and Rehab Technology (NCART), I appreciate the opportunity to testify about “the impact of rising gas prices on America’s small business”. Chesapeake Rehab Equipment is a small regional company which provides rehab technology products and service to disabled Americans. NCART is a coalition of manufacturers and suppliers that representing the interests of companies like Chesapeake Rehab.

## **Background**

The rehab technology industry is a small subdivision of the durable medical equipment (DME) industry. Businesses in this sector provide medical equipment and services for individuals with a variety of conditions and disabilities. The service and delivery model of this business requires companies to make deliveries and service calls to the homes of customers. Many of the individuals we serve are unable to come to our locations and their equipment is not always conveniently transported.

Companies in this industry are primarily small privately owned businesses that serve a local or regional community. Most have annual revenues under \$3M and many are rural providers who may serve an area with a radius of up to 200 miles. These companies employ fleets of their own vehicles which each can make 5-10 delivery/service stops and traveling 150-200 miles per day. The vehicles will cover rural and urban areas and experience highway and city driving conditions.

These companies also operate in a price regulated market. Ninety-five to ninety-eight percent of the payment for the products provided comes from Medicare, State Medicaid or third party insurance payers. These organizations establish a rate of reimbursement for rehab technology companies and rarely allow adjustment of those rates to reflect market conditions and operating costs of the provider. The level of service provided is also dictated by accreditation standards and “supplier standards” required by Medicare.

Companies are not able to unilaterally increase prices in order to adapt to increasing operating expenses nor are they able to cut services in order to reduce those expenses. Medicare/Medicaid regulations prohibit companies from directly billing their customers for any costs that should be included in the price of the product or the associated labor. Fuel costs fall within this area.

## The Impact of Rising Gas Prices on America's Rehab Technology Providers

Fuel prices have impacted rehab technology companies like Chesapeake Rehab Equipment in three different ways. The first is in the direct fuel costs paid by companies as a normal course of business and as a routine operating expense. Secondly, are those costs which are passed on by manufacturers, distributors and freight companies for incoming products and raw goods. The final are is in the affect that fuel prices have on our employees and their cost of commuting to work.

Fuel prices are the fastest growing operating expense item experienced by Chesapeake Rehab and other rehab technology companies. The only more costly operating expenses are labor and office/warehouse rent but neither has increased at a rate even close to our fuel expense. In 2003 fuel represented 1% of CRE's overall operational expenses. Year to date for 2008 it has already reached 2%. Chart 1, below, shows an increase of 126% in the price per gallon that our company has paid between 2003 and today.

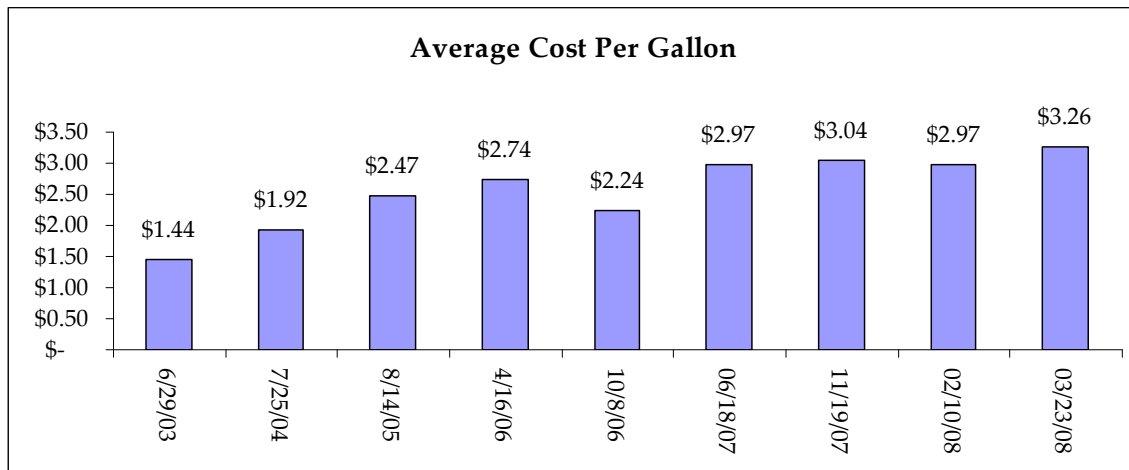


Chart 1

Chart 2 shows that Chesapeake Rehab's use of fuel has remained relatively flat over the same period as listed above. However, Chart 3 will show that the annualized dollar cost has more than doubled in that period.

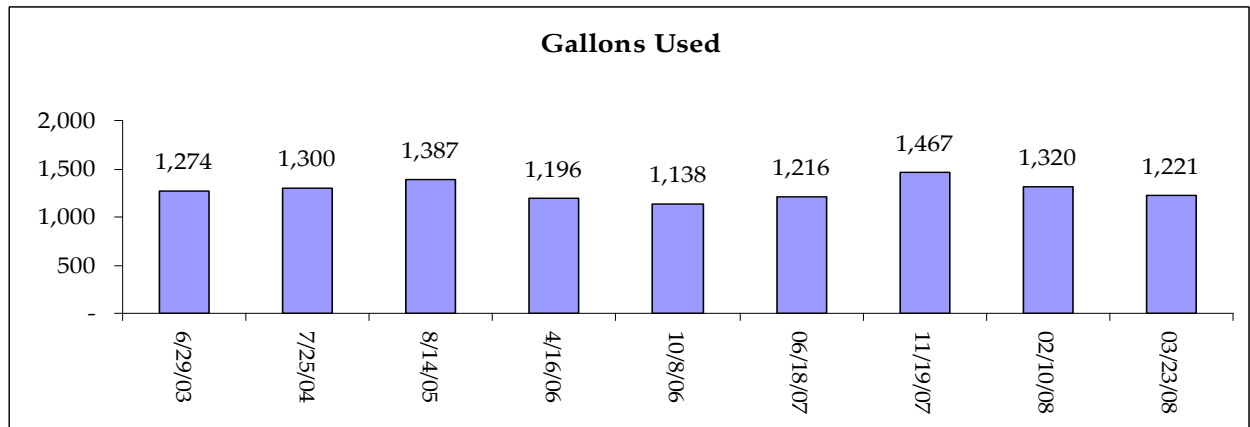


Chart 2

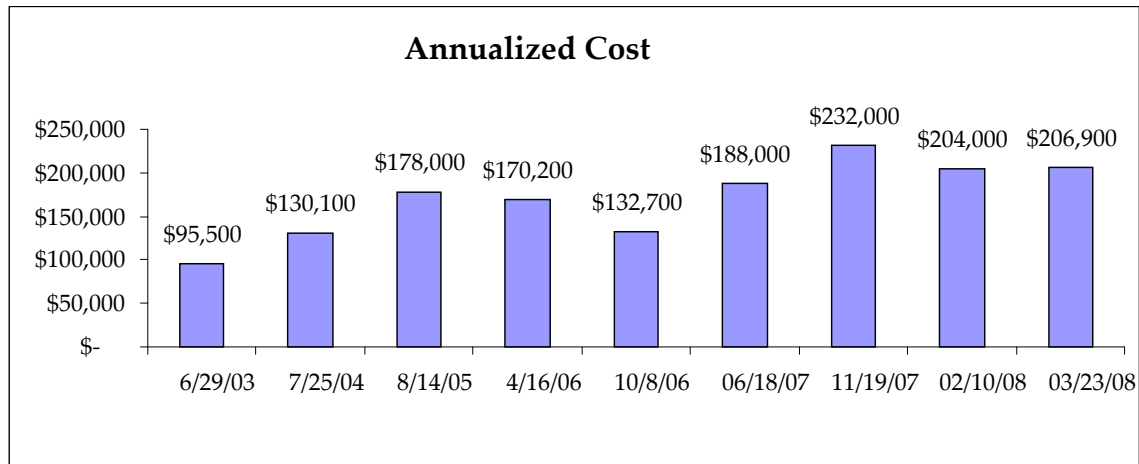


Chart 3

The trends shown in these charts are consistent with numbers received by NCART in a poll of several members. Although the fuel prices may vary by a couple cents per gallon the overall trend is consistent across all sizes of companies and all geographic areas.

In addition to the area of direct operating costs rehab technology companies are absorbing an increase in product costs as a result of fuel prices. Rehab technology companies purchase their products from several different manufacturers and distributors for delivery to customers. In the past 18 months every manufacturer that supplies the industry has either increased the actual price of their product or imposing fuel surcharges on the freight to bring the product in. This has added anywhere from 3-5% of an increase to the price of the product. Chesapeake Rehab's cost of goods has increased 3% in the last year mostly as a result of these fuel surcharges and incoming freight costs. Once again this is a trend that is consistent across our industry.

Rehab technology companies also feel the impact of increased fuel prices through their employees. This is a more indirect effect that we are seeing more now than in the past. There are more incidents of employees requesting pay increases or leaving to accept jobs with other businesses closer to their homes. They simply cannot continue to personally absorb the increased cost of commuting to work. Many do not have access to public transportation and some require their vehicles to do their jobs.

The work force in the rehab technology industry is very specialized. Finding employees who have the proper skill set or knowledge base to work in our field is very difficult. Keeping employees at a higher pay rate or replacing lost employees are real costs that are not driven by normal market pressures.

Increasing fuel costs are detrimental to any business large or small. Unfortunately in a highly regulated industry they are even more damaging. Companies that are dependent on Medicare, Medicaid and private insurance for the payment for products and services are limited by the rates that those organizations will pay. There is no mechanism to recognize or reimburse companies for the amount of travel required to service our customers in their home as we are required. It is expected that these businesses will absorb these costs as part of the price of the product. Unlike other home service industries we are unable to pass on those costs.

In general, Medicare and Medicaid funding for rehab technology products has been cut about 15% over the last 3 years. There have been only 3 CPI increases to the “Medicare fee schedules” since 1998 and none since 2003. The industry is facing additional cuts through the implementation of the Medicare competitive bidding program and through State Medicaid budget cuts.

In 2006, NCART contracted with the Moran Company to perform a financial study of companies in the rehab technology industry<sup>1</sup>. This showed the impact of reimbursement changes on rehab technology companies and that the average net profit for a rehab technology company was only 1.6%. It also showed that many companies in the industry are below that level and are cash strapped as a result of the pitfalls of collecting payments from Medicare, Medicaid and third party insurers. To continue to absorb such drastic increases in fuel prices will further damage companies that may already be financially unstable.

At the rate that fuel prices are increasing they can provide the tipping point that will cause some of those borderline businesses to fail. As businesses in this sector fail there will be less attraction of new capital to the industry because a reasonable return cannot be attained. Without additional investment in the industry there will be an issue of access to technology for those disabled individuals that are served by these businesses.

Once again, on behalf of Chesapeake Rehab Equipment and NCART, I appreciate this opportunity express our concerns regarding fuel costs and their impact on our businesses. Our hope is that this committee may be able to initiate some effort that will bring some relief to small businesses.

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<sup>1</sup> The Impact of Proposed Reimbursement Changes on Providers of Rehab and Assistive Technology: Evidence from a Provider Survey November 2006. The Moran Company